

THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 15

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1962

A statement of the income and disbursements of the Federal disability insurance trust fund for fiscal year 1962 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7.

TABLE 7.—Statement of operations of the disability insurance trust fund during the fiscal year 1962

Total assets of the trust fund, June 30, 1961.....	\$2,504,384,461.38
Receipts, fiscal year 1962:	
Tax contributions:	
Appropriations.....	\$955,449,632.27
Deposits arising from State agreements.....	77,323,679.77
Gross tax contributions.....	1,032,773,312.04
Less payment into the Treasury for taxes subject to refund.....	11,907,500.00
Net tax contributions.....	\$1,020,865,812.04
Interest:	
On investments.....	\$69,956,452.98
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursed administrative expenses.....	2,204,658.00
Less interest on amounts transferred to railroad retirement account.....	330,000.00
Net interest.....	67,421,794.98
Total receipts.....	<u>1,088,287,607.02</u>
Disbursements, fiscal year 1962:	
Benefit payments.....	1,011,375,762.35
Transfers to railroad retirement account.....	10,700,000.00
Administrative expenses:	
Reimbursement to the old-age and survivors insurance trust fund:	
For administrative expenses of the Department of Health, Education, and Welfare.....	\$56,582,183.00
For construction of building for the Bureau of Old-Age and Survivors Insurance.....	3,690,416.00
Treasury Department.....	3,654,167.42
Total administrative expenses.....	63,926,756.42
Total disbursements.....	<u>1,086,002,518.77</u>
Net addition to the trust fund.....	2,285,088.25
Total assets of the trust fund, June 30, 1962.....	<u>2,506,669,549.61</u>

The total assets of the disability insurance trust fund amounted to \$2,504 million on June 30, 1961. These assets increased by somewhat more than \$2 million, to \$2,507 million by the end of the fiscal year 1962.

Net receipts of the fund amounted to \$1,088 million. Of this total, \$955 million represented tax collections appropriated to the fund, and \$77 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, \$12 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum. An additional \$67 million of receipts consisted of net interest on the investments of the fund.

Disbursements from the fund during the fiscal year 1962 totaled \$1,086 million. Of this total, \$1,011 million was for benefit payments, an increase of 44 percent over the corresponding amount paid in the fiscal year 1961. This increase was due chiefly to (1) the expected increase in the number of disability insurance beneficiaries as the program matures and (2) the fact that benefits for disabled workers under age 50 and for their dependents, as provided by the 1960 amendments, were payable during the entire fiscal year 1962 but during only part of fiscal year 1961.

Public Law 880, approved August 1, 1956, provided for financial interchanges between the railroad retirement account and the disability insurance trust fund similar to those described in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1961, required that a transfer of the principal sum of \$10,700,000 be made from the disability insurance trust fund to the railroad retirement account. This sum, together with interest thereon for fiscal year 1962 amounting to \$330,000, was transferred to the railroad retirement account in June 1962. The remaining \$64 million of disbursements was for administrative expenses.

At the end of fiscal year 1962, some 1,152,000 persons in 679,000 families were receiving monthly benefits from the disability insurance trust fund (table 4). The distribution of benefit payments in fiscal years 1961 and 1962, by type of benefit, is shown in table 8.

TABLE 8.—*Estimated distribution of benefit payments from the disability insurance trust fund, by type of benefit, fiscal years 1961 and 1962*

[Amounts in millions]

Type of benefit	1961		1962	
	Amount	Percent of total	Amount	Percent of total
Total <sup>1 2</sup> .....	\$704.0	100	\$1,011.4	100
Disability (disabled worker).....	589.5	84	816.3	81
Wife's or husband's (aged wives or dependent husbands of disability beneficiaries or their young wives if caring for child beneficiary).....	41.2	6	62.6	6
Child's (children, under age 18 or disabled, of disability beneficiaries).....	73.3	10	132.4	13

<sup>1</sup> Benefits were first payable (1) to disabled workers aged 50 through 64, for July 1957, (2) to disabled workers under age 50, for November 1960, and (3) to dependents of disabled-worker beneficiaries, for September 1958.

<sup>2</sup> Totals do not necessarily equal the sum of rounded components.

The assets of this fund at the end of fiscal year 1962 totaled \$2,507 million, consisting of \$2,406 million in the form of obligations of the U.S. Government, and \$101 million in undisbursed balances. Table 9 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1961 and 1962.

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TABLE 9.—Assets of the disability insurance trust fund, by type, at end of fiscal years 1961 and 1962

	June 30, 1961		June 30, 1962	
	Par value	Book value <sup>1</sup>	Par value	Book value <sup>1</sup>
<b>Investments in public-debt obligations:</b>				
Public issues:				
Treasury notes:				
4½-percent, series C, 1963	\$5,000,000	\$5,000,000.00	\$5,000,000	\$5,000,000.00
5-percent, series B, 1964	5,000,000	5,000,000.00	5,000,000	5,000,000.00
Treasury bonds:				
2½-percent, 1967-72	1,500,000	1,319,472.22		
2½-percent, 1965	18,250,000	18,117,129.23		
3-percent, 1966	10,000,000	10,000,000.00	10,000,000	10,000,000.00
3½-percent, 1990	7,500,000	7,061,358.78	7,500,000	7,076,704.86
3½-percent, 1998	3,500,000	3,280,489.98	5,000,000	4,621,878.80
3½-percent, 1967	10,000,000	10,000,000.00	10,000,000	10,000,000.00
3¾-percent, 1968			5,000,000	5,000,000.00
3¾-percent, 1968	3,750,000	3,750,000.00	3,750,000	3,750,000.00
3¾-percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4-percent, 1969	11,000,000	11,009,900.00	21,000,000	20,985,068.70
4-percent, 1980	2,000,000	1,994,427.89	20,250,000	20,183,365.41
4¾-percent, 1975-85	5,000,000	5,000,000.00	5,000,000	5,000,000.00
Total public issues	87,500,000	86,532,778.10	102,500,000	101,617,007.77
Accrued interest purchased		90,422.15		28,232.02
Total investments in public issues	87,500,000	86,623,200.25	102,500,000	101,645,239.79
Obligations sold only to this fund (special issues): <sup>2</sup>				
Certificates of indebtedness:				
3¾-percent, 1962	34,096,000	34,096,000.00		
3¾-percent, 1963				
Notes:			1,361,000	1,361,000.00
2½ percent, 1962	37,500,000	37,500,000.00		
2½ percent, 1963	30,000,000	30,000,000.00		
2½ percent, 1962	95,394,000	95,394,000.00	30,000,000	30,000,000.00
2½ percent, 1963	95,394,000	95,394,000.00		
2½ percent, 1964	95,394,000	95,394,000.00	95,394,000	95,394,000.00
2½ percent, 1965	95,394,000	95,394,000.00	95,394,000	95,394,000.00
3¾ percent, 1963	32,394,000	32,394,000.00	32,394,000	32,394,000.00
3¾ percent, 1964	19,389,000	19,389,000.00	19,389,000	19,389,000.00
3¾ percent, 1965	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾ percent, 1966	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾ percent, 1967	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾ percent, 1967			1,349,000	1,349,000.00
Bonds:				
2½-percent, 1963	7,500,000	7,500,000.00	7,500,000	7,500,000.00
2½-percent, 1964	37,500,000	37,500,000.00	37,500,000	37,500,000.00
2½-percent, 1965	37,500,000	37,500,000.00	37,500,000	37,500,000.00
2½-percent, 1966	37,500,000	37,500,000.00	37,500,000	37,500,000.00
2½-percent, 1967	37,500,000	37,500,000.00	37,500,000	37,500,000.00
2½-percent, 1968	30,000,000	30,000,000.00	37,500,000	37,500,000.19
2½-percent, 1965	63,000,000	63,000,000.00	30,000,000	30,000,000.00
2½-percent, 1966	95,394,000	95,394,000.00	63,000,000	63,000,000.00
2½-percent, 1967	95,394,000	95,394,000.00	95,394,000	95,394,000.00
2½-percent, 1968	102,894,000	102,894,000.00	95,394,000	95,394,000.00
2½-percent, 1969	132,894,000	132,894,000.00	102,894,000	102,894,000.00
2½-percent, 1970	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1971	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1972	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1973	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1974	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1975	132,894,000	132,894,000.00	132,894,000	132,894,000.00
3¾-percent, 1967	19,389,000	19,389,000.00	132,894,000	132,894,000.00
3¾-percent, 1968	19,389,000	19,389,000.00	19,389,000	19,389,000.00
3¾-percent, 1969	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1970	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1971	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1972	49,389,000	49,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1973	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1974	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1975	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1976	19,389,000	19,389,000.00	20,738,000	20,738,000.00
3¾-percent, 1977	152,283,000	152,283,000.00	153,632,000	153,632,000.00
Total obligations sold only to this fund (special issues)	2,298,952,000	2,298,952,000.00	2,304,492,000	2,304,492,000.00
Total investments in public-debt obligations	2,386,452,000	2,385,575,200.25	2,406,992,000	2,406,137,239.79
Undisbursed balances		118,809,261.11		100,532,309.82
Total assets		2,504,384,461.36		2,506,669,549.61

<sup>1</sup> Par value, plus unamortized premium, less discount outstanding.

<sup>2</sup> All special issues—certificates, notes, and bonds—mature on June 30 of the year shown.

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The net increase in the par value of the investments owned by the fund during the fiscal year amounted to \$21 million. New securities at a total par value of \$1,353 million were acquired during the fiscal year through the investment of receipts of the fund, the reinvestment of funds made available from the maturity of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the year was \$1,332 million, including \$20 million of public issues. A summary of transactions for the fiscal year, by type of security, is presented in table 10.

TABLE 10.—Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1962

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury bonds:		
2½-percent, 1967-72.....	\$0	\$1,500,000
2½-percent, 1965.....	0	18,250,000
3½-percent, 1968.....	1,500,000	0
3½-percent, 1968.....	5,000,000	0
4-percent, 1969.....	10,000,000	0
4-percent, 1980.....	18,250,000	0
Total public issues.....	34,750,000	19,750,000
Obligations sold only to this fund (special issues): <sup>1</sup>		
Certificates of indebtedness:		
3¾-percent, 1962.....	358,821,000	392,917,000
3¾-percent, 1963.....	1,361,000	0
3¾-percent, 1962.....	475,669,000	475,669,000
4-percent, 1962.....	311,154,000	311,154,000
Notes:		
2½-percent, 1962.....	0	37,500,000
2½-percent, 1962.....	0	95,394,000
3¾-percent, 1964.....	1,349,000	0
3¾-percent, 1965.....	1,349,000	0
3¾-percent, 1966.....	1,349,000	0
3¾-percent, 1967.....	1,349,000	0
Bonds:		
3¾-percent, 1968.....	1,349,000	0
3¾-percent, 1969.....	1,349,000	0
3¾-percent, 1970.....	1,349,000	0
3¾-percent, 1971.....	1,349,000	0
3¾-percent, 1972.....	1,349,000	0
3¾-percent, 1973.....	1,349,000	0
3¾-percent, 1974.....	1,349,000	0
3¾-percent, 1975.....	1,349,000	0
3¾-percent, 1976.....	1,349,000	0
3¾-percent, 1977.....	153,632,000	0
Total obligations sold only to this fund (special issues).....	1,318,174,000	1,312,634,000
Total transactions.....	1,352,924,000	1,332,384,000

<sup>1</sup> All special issues—certificates, notes, and bonds—mature June 30 of the year shown.

As indicated in the preceding section of this report, the special issues held by the trust funds have maturities fixed with due regard for the needs of the funds. On June 30, 1962, these holdings of the disability insurance trust fund were distributed in virtually equal amounts of \$154 million among maturities ranging from 1 to 15 years (table 9).

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1962, TO DECEMBER 31, 1967

In the following statement of the expected operations and status of the trust funds during the period July 1, 1962, to December 31, 1967, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged

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throughout the period. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 11 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years

TABLE 11.—Operations of the old-age and survivors insurance trust fund, fiscal years 1937-67

[In millions]

Fiscal year	Transactions during period						Net increase in fund <sup>4</sup>	Fund at end of period <sup>4</sup>
	Income			Disbursements				
	Tax contributions <sup>1</sup>	Interest on investments <sup>2</sup>	Reimbursement for additional cost of non-contributory credit for military service	Benefit payments	Administrative expenses <sup>3</sup>	Transfers to railroad retirement account		
<b>Past experience:</b>								
1937-62 <sup>4</sup>	\$96,025	\$7,128	\$15	\$80,004	\$2,161	\$1,377	\$19,626	\$19,626
1941	688	56		64	27		653	2,398
1942	896	71		110	27		830	3,227
1943	1,130	87		149	27		1,041	4,268
1944	1,292	103		185	33		1,178	5,446
1945	1,310	124		240	27		1,167	6,613
1946	1,238	148		321	37		1,028	7,641
1947	1,459	163	( <sup>5</sup> )	426	41		1,157	8,798
1948	1,616	191	1	512	47		1,248	10,047
1949	1,690	230	3	607	53		1,263	11,310
1950	2,106	257	4	727	57		1,583	12,893
1951	3,120	287	4	1,498	70		1,843	14,736
1952	3,594	334	4	1,982	85		1,864	16,600
1953	4,097	387		2,627	89		1,766	18,366
1954	4,589	451		3,276	89		1,676	20,043
1955	5,087	448		4,333	103		1,098	21,141
1956	6,442	495		5,361	124		1,452	22,593
1957	6,540	561		6,515	150		436	23,029
1958	7,267	557		7,875	166		216	22,813
1959	7,565	540		9,049	206	121	-1,271	21,541
1960	9,843	500		10,270	202	583	-712	20,829
1961	11,293	622		11,185	236	322	72	20,900
1962	11,455	530		12,658	251	350	-1,274	19,626
<b>Estimated future experience:</b>								
1963	13,262	509		13,865	268	375	-738	18,889
1964	14,984	511	63	14,648	297	375	238	19,127
1965	15,449	530	140	15,332	305	410	72	19,199
1966	16,817	559	132	15,999	314	430	765	19,964
1967	18,793	625	128	16,601	322	420	2,113	22,077

<sup>1</sup> Beginning December 1952, includes adjustment for refunds.

<sup>2</sup> Includes (1) net profits on marketable investments, (2) for fiscal years 1954-58, interest transferred from the railroad retirement account and, beginning in 1959, adjustment for interest transferred to the railroad retirement account, and (3) beginning in 1958, interest on administrative expenses reimbursed by the disability insurance trust fund.

<sup>3</sup> Receipts from sale of surplus materials, services, etc. are deducted from gross administrative expenses. For fiscal years 1954-64, includes cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance. Beginning fiscal year 1957, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, are then made from the disability insurance trust fund in the following fiscal year.

<sup>4</sup> Totals do not necessarily equal the sum of rounded components.

<sup>5</sup> Less than \$500,000.

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in December 1962.

1963-67. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1967. Under this assumption the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 75.0 million during calendar year 1962 to 80.6 million during calendar year 1967; their taxable earnings are estimated to increase from \$219 billion to \$255 billion in that period. The increase in estimated income from contributions in fiscal years 1963-67 reflects the assumed upward trend in the levels of employment and earnings as well as the effect of the scheduled increases in contribution rates, effective on January 1 of 1963 and 1966. Benefit disbursements increase because of the recent amendments and also because of the long-range upward trend in the number of beneficiaries under the program.

Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1963-67. During this period, there is an estimated net increase in the trust fund of \$2.5 billion.

Estimates consistent with those shown on a fiscal-year basis in table 11 are presented in table 12 to show the progress of the old-age and

TABLE 12.—Operations of the old-age and survivors insurance trust fund, calendar years 1937-67

[In millions]

Calendar year	Transactions during period						Net increase in fund	Fund at end of period
	Income			Disbursements				
	Tax contributions	Interest on investments	Reimbursement for additional cost of non-contributory credit for military service	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:								
1937-61.....	\$89,313	\$6,876	\$15	\$73,449	\$2,003	\$1,027	\$19,725	\$19,725
1941.....	789	56	-----	88	26	-----	731	2,762
1942.....	1,012	72	-----	131	28	-----	926	3,688
1943.....	1,239	88	-----	166	29	-----	1,132	4,820
1944.....	1,316	107	-----	209	29	-----	1,184	6,005
1945.....	1,285	134	-----	274	30	-----	1,116	7,121
1946.....	1,295	152	-----	378	40	-----	1,029	8,150
1947.....	1,557	164	1	466	46	-----	1,210	9,360
1948.....	1,685	281	3	556	51	-----	1,362	10,722
1949.....	1,666	146	4	667	54	-----	1,064	11,816
1950.....	2,667	257	4	961	61	-----	1,905	13,721
1951.....	3,363	417	4	1,885	81	-----	1,818	15,540
1952.....	3,819	365	-----	2,194	88	-----	1,902	17,442
1953.....	3,945	414	-----	3,006	88	-----	1,265	18,707
1954.....	5,163	468	-----	3,670	92	-----	1,869	20,576
1955.....	5,713	461	-----	4,968	119	-----	1,087	21,663
1956.....	6,172	531	-----	5,715	132	-----	856	22,519
1957.....	6,825	557	-----	7,347	162	-----	-126	22,393
1958.....	7,566	549	-----	8,327	194	121	-528	21,864
1959.....	8,052	525	-----	9,842	184	275	-1,724	20,141
1960.....	10,866	506	-----	10,677	263	308	184	20,324
1961.....	11,285	539	-----	11,862	239	322	-599	19,725
Estimated future experience:								
1962.....	12,059	515	-----	13,356	256	350	-1,388	18,337
1963.....	14,447	510	63	14,279	277	375	89	18,426
1964.....	15,171	520	140	14,688	296	375	172	18,598
1965.....	15,663	544	132	15,667	307	410	-45	18,553
1966.....	18,091	592	128	16,344	316	430	1,721	20,274
1967.....	18,991	677	123	17,038	328	420	2,007	22,281

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 11.

survivors insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1963-67, except 1965. During that year, which immediately precedes the year in which the next tax rate increase is scheduled to take effect, the outgo of the trust fund is estimated to exceed the income by a small amount. With the tax rate increases scheduled to take place in 1966 and 1968, total income is expected to exceed total disbursements by substantial amounts, and the upward trend in the size of the fund will be resumed.

Benefit disbursements from the old-age and survivors insurance trust fund will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 13 shows the annual amount of benefit payments distributed by classification of beneficiaries. Benefit payments were 5.84 percent of taxable earnings for calendar year 1961. It is estimated that by 1967 benefit expenditures will be 6.92 percent of taxable earnings. Figures for each of the calendar years 1940-67 are shown in table 14.

TABLE 13.—Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940-67

[In millions]

Calendar year	Total benefit disbursements <sup>1</sup>	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers			Lump-sum payments
				Monthly benefits			
				Total <sup>1</sup>	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and dependent children	
<b>Past experience: *</b>							
1940.....	\$35.4	\$14.8	\$2.4	\$8.4	\$0.5	\$5.0	\$11.8
1941.....	88.1	43.6	7.6	23.6	2.7	20.9	13.3
1942.....	130.7	64.8	11.4	39.5	5.9	33.7	15.0
1943.....	165.9	79.1	13.9	55.2	9.9	45.2	17.8
1944.....	209.0	96.6	16.9	73.5	14.6	58.8	22.0
1945.....	273.9	125.8	22.3	99.7	21.0	78.6	26.1
1946.....	378.1	189.1	33.2	127.0	29.3	98.7	27.9
1947.....	466.2	244.7	42.9	149.2	38.3	110.8	29.5
1948.....	556.2	299.9	52.2	171.8	49.4	122.4	32.3
1949.....	667.2	372.9	64.5	196.6	62.2	134.3	33.2
1950.....	961.1	556.9	94.5	276.9	92.3	184.6	32.7
1951.....	1,885.2	1,134.9	186.1	506.8	164.5	342.3	57.3
1952.....	2,194.1	1,327.7	211.6	591.5	201.2	390.3	63.3
1953.....	3,006.3	1,884.2	291.1	743.5	260.2	483.4	87.5
1954.....	3,670.2	2,339.6	358.4	880.0	317.0	563.0	92.2
1955.....	4,968.2	3,252.9	494.9	1,107.5	412.2	695.4	112.9
1956.....	5,714.6	3,792.8	568.5	1,244.1	486.1	758.0	109.3
1957.....	7,347.3	4,888.4	799.4	1,520.7	671.7	849.0	138.8
1958.....	8,327.0	5,566.5	907.4	1,720.1	777.5	942.7	132.9
1959.....	9,841.6	6,548.0	1,059.0	2,063.3	946.1	1,117.2	171.3
1960.....	10,676.6	7,052.9	1,143.3	2,316.2	1,085.3	1,230.9	164.3
1961.....	11,861.6	7,801.5	1,230.4	2,658.6	1,262.3	1,396.3	171.1
<b>Estimated future experience:</b>							
1962.....	13,356.0	8,819.0	1,347.0	3,006.0	1,504.0	1,502.0	184.0
1963.....	14,279.0	9,462.0	1,423.0	3,202.0	1,639.0	1,563.0	192.0
1964.....	14,988.0	9,914.0	1,475.0	3,399.0	1,777.0	1,622.0	200.0
1965.....	15,667.0	10,328.0	1,521.0	3,610.0	1,926.0	1,684.0	208.0
1966.....	16,344.0	10,747.0	1,567.0	3,815.0	2,073.0	1,742.0	215.0
1967.....	17,038.0	11,175.0	1,613.0	4,028.0	2,210.0	1,809.0	222.0

<sup>1</sup> Totals do not necessarily equal the sum of rounded components.

<sup>2</sup> Partly estimated.

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TABLE 14.—Old-age and survivors insurance benefit payments as a percentage<sup>1</sup> of taxable earnings, calendar years, 1940-67

Calendar year	Benefit payments as a percentage of taxable earnings	Calendar year	Benefit payments as a percentage of taxable earnings
Past experience	0.11	Past experience—Continued:	
1940.....	.21	1955.....	3.26
1941.....	.25	1956.....	3.48
1942.....	.27	1957.....	4.20
1943.....	.32	1958.....	4.77
1944.....	.44	1959.....	5.03
1945.....	.55	1960.....	5.32
1946.....	.59	1961.....	5.84
1947.....	.66	Estimated future experience:	
1948.....	.82	1962.....	6.30
1949.....	1.10	1963.....	6.49
1950.....	1.60	1964.....	6.63
1951.....	1.76	1965.....	6.70
1952.....	2.28	1966.....	6.81
1953.....	2.83	1967.....	6.92
1954.....			

<sup>1</sup> For years 1951 and later, percentage takes into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.

<sup>2</sup> Preliminary, subject to revision on complete tabulation of self-employment earnings for 1959-61 and of taxable wages for 1960-61.

The growth in the number of beneficiaries in the past and the expected growth in the future is attributable in large measure to the rising number of aged workers eligible for and receiving old-age (primary) benefits. The growth in the number of eligible workers aged 65 and over since 1940 has been uninterrupted. This growth resulted partly from the increase in the population at these attained ages, but primarily from two additional factors—(1) in each passing year a larger proportion of the persons attaining age 65 had fully insured status and (2) the amendments during the period 1950-61 liberalized the eligibility provisions and extended coverage to new areas of employment.

In the early years of the program, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. Since 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles aged 72 or over, who receive benefits regardless of earnings, the upward trend in this proportion is expected to continue, although at a slower rate than in the past.

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The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 15 together with the figures on actual experience in earlier years. Outgo of the disability insurance trust fund is expected to exceed income in each of the 5 fiscal years 1963-67. It is estimated that this fund will amount to \$1,764 million on June 30, 1967.

TABLE 15.—Operations of the disability insurance trust fund, fiscal years 1957-67  
[In millions]

Fiscal year	Transactions during period						Net increase in fund <sup>4</sup>	Fund at end of period <sup>4</sup>
	Income			Disbursements				
	Tax contributions <sup>1</sup>	Interest on investments <sup>2</sup>	Reimbursement for additional cost of non-contributory credit for military service	Benefit payments	Administrative expenses <sup>3</sup>	Transfers to railroad retirement account		
Past experience:								
1957-62 <sup>4</sup> .....	\$5, 189	\$226	-----	\$2, 751	\$167	-\$10	\$2, 507	
1957.....	337	1	-----	1	1	-----	337	
1958.....	926	16	-----	168	12	-----	762	
1959.....	895	33	-----	339	21	-----	568	
1960.....	987	48	-----	528	32	-26	501	
1961.....	1, 022	60	-----	704	36	5	337	
1962.....	1, 021	67	-----	1, 011	64	11	2	
Estimated future experience:								
1963.....	1, 072	66	-----	1, 167	67	10	-105	
1964.....	1, 110	63	\$1	1, 231	75	10	-142	
1965.....	1, 145	59	6	1, 276	84	10	-160	
1966.....	1, 179	54	7	1, 306	88	10	-164	
1967.....	1, 209	50	8	1, 336	92	10	-171	

<sup>1</sup> Adjusted for refunds.

<sup>2</sup> Includes (1) net profits on marketable investments, (2) for fiscal year 1960, interest transferred from the railroad retirement account and, beginning in 1961, adjustment for interest transferred to the railroad retirement account, and (3) beginning in 1958, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund.

<sup>3</sup> Expenses of the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, are then made from the disability insurance trust fund in the following fiscal year.

<sup>4</sup> Totals do not necessarily equal the sum of rounded components.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in December 1962.

Estimates consistent with those shown on a fiscal-year basis in table 15 are presented in table 16 to show the progress of the trust fund on a calendar-year basis. The total amount of benefit payments under the disability insurance program will continue to increase over the next 5 calendar years as the number of beneficiaries increases. Benefit expenditures as a percentage of payroll will also increase. Benefit payments were 0.44 percent of taxable earnings for calendar year 1961. During 1962-67, benefit payments are expected to be about 0.55 percent of payroll, as shown in table 17.

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TABLE 16.—Operations of the disability insurance trust fund, calendar years 1957-67

[In millions]

Calendar year	Transactions during period						Net increase in fund	Fund at end of period
	Income			Disbursements				
	Tax contributions	Interest on investments	Reimbursement for additional cost of non-contributory credit for military service	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:								
1957-61.....	\$4,606	\$192	-----	\$2,218	\$165	-\$21	\$2,437	\$2,437
1957.....	702	7	-----	57	3	-----	649	649
1958.....	966	25	-----	249	12	-----	729	1,379
1959.....	891	41	-----	457	50	-21	447	1,825
1960.....	1,010	53	-----	568	36	-5	464	2,289
1961.....	1,038	66	-----	887	64	5	148	2,437
Estimated future experience:								
1962.....	1,046	67	-----	1,105	66	11	-69	2,368
1963.....	1,090	64	\$1	1,206	75	10	-136	2,232
1964.....	1,123	61	6	1,257	84	10	-161	2,071
1965.....	1,160	56	7	1,291	88	10	-166	1,905
1966.....	1,194	52	8	1,321	92	10	-169	1,736
1967.....	1,221	47	9	1,350	94	10	-177	1,559

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 15.

TABLE 17.—Disability insurance benefit payments as a percentage<sup>1</sup> of taxable earnings, calendar years 1957-67

Calendar year	Benefit payments as a percentage of taxable earnings	Calendar year	Benefit payments as a percentage of taxable earnings
Past experience:		Estimated future experience:	
1957.....	0.03	1962.....	0.52
1958.....	14	1963.....	.55
1959.....	2.23	1964.....	.56
1960.....	2.28	1965.....	.55
1961.....	2.44	1966.....	.55
		1967.....	.55

<sup>1</sup> Takes into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.

<sup>2</sup> Preliminary, subject to revision on complete tabulation of taxable self-employment earnings for 1959-61 and of taxable wages for 1960-61.

Reference has been made in earlier sections to the financial interchanges between the railroad retirement account and the two trust funds under the provisions of the Railroad Retirement Act. The estimates shown in tables 11, 12, 15, and 16 reflect the effect of future financial interchanges.

Public Law 881, approved August 1, 1956, provides that the old-age and survivors insurance trust fund, and where appropriate the disability insurance trust fund, shall be reimbursed from general revenues for past and future expenditures resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World

War II veterans for a period of 3 years after leaving service. The arrangements for annual reimbursements are based on the following plan: The total additional costs arising from payments during the period September 1950 through June 1961 are to be amortized in annual installments over a 10-year period, the first installment of which will be paid in fiscal year 1964. The Budget of the U.S. Government for the fiscal year 1964 makes provision for this reimbursement. The additional costs arising from payments made after June 1961 will be repaid annually on a current basis, the first such repayment to be made in fiscal year 1965. The estimates shown in the various tables in this section reflect the effect of these reimbursements. A description of the legislative history of provisions relating to credit for military service, including the provisions for reimbursement for the additional costs arising from payments made before September 1950, is contained in appendix II.

As already indicated earlier in this section, forecasts of the income and disbursements of the trust funds involve many uncertainties. For that reason, estimates are presented in table 18 to show the effects on the operations and status of the old-age and survivors insurance trust fund in the unlikely event of a sharp reduction in the level of economic activity during calendar years 1963-67, with a relatively high rate of unemployment during the entire period. Under this assumption contributions would be lower and benefit payments higher than estimated above under high employment conditions. A severe decline in business activity is assumed to begin in the first half of calendar year 1963. The decline is halted in early 1966 and a modest recovery takes place during that year and 1967. These conditions result in annual declines in the number of persons with taxable earnings under the old-age, survivors, and disability insurance program from 73.3 million in 1963 to 68.2 million in 1966, and then rising to 68.5 million in 1967; their taxable earnings, estimated at \$214 billion in calendar year 1963, decline further to \$195 billion in calendar year 1966, then increasing to \$196 billion in calendar year 1967.

TABLE 18.—Illustration showing the operations and status of the old-age and survivors insurance trust fund assuming the unlikely event of a sharply reduced level of economic activity, calendar years 1963-67

[In millions]

Calendar year	Transactions during period						Net increase in fund	Fund at end of period
	Income			Disbursements				
	Tax contributions	Interest on investments	Reimbursement for additional cost of non-contributory credit for military service	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
1963.....	\$13,761	\$491	\$63	\$14,613	\$287	\$375	—\$960	\$17,377
1964.....	13,465	433	140	15,792	306	390	—2,450	14,927
1965.....	12,878	357	132	16,759	315	435	—4,142	10,785
1966.....	14,300	282	128	17,588	322	490	—3,660	7,095
1967.....	14,744	226	123	18,267	331	505	—4,000	3,095

NOTE.—In interpreting the above estimates, reference should be made to the accompanying text which explains the underlying assumptions.

The lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers and to their eligible dependents. Under the hypothetical lower employment conditions it is estimated that larger proportions of eligible workers would be obliged to leave employment, especially at ages 65-69. Hence, despite a slightly smaller number of eligible workers, the number receiving old-age (primary) benefits under this assumption would considerably exceed that under high employment conditions. Moreover, it is expected that the average old-age (primary) benefit amount payable would be larger inasmuch as many of the more steadily employed higher paid older workers, who would not withdraw from employment under the high employment conditions, would not be in employment under these assumed conditions. The foregoing analysis also applies to insured workers aged 62-64.

On the other hand, the larger the volume of employment, the larger will be the number of workers who are insured under the program and therefore the larger will be the number of deaths which will give rise to valid claims for survivor benefits. While favorable opportunities for employment will operate to increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivor benefits to forgo them by working. Therefore, the amount paid out for survivor benefits over the short-range future will not be affected significantly by variations in economic conditions.

#### ACTUARIAL STATUS OF THE TRUST FUNDS

Old-age, survivors, and disability insurance benefit payments will increase for many years—not only in dollars but also as a percentage of taxable payroll. Long-range estimates are needed, therefore, to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

The cost of benefits to aged persons, which constitute almost 85 percent of the total cost of the program, will rise for several reasons. The U.S. population aged 65 and over will, over the long range, almost certainly become a larger proportion of the total population. This will result, in part, because the present aged population is made up of the survivors from past periods when death rates were much higher than they are now. Also, after the turn of the century, the larger birth cohorts of the 1940's and 1950's will be attaining retirement age. Thus, in the future, relatively more persons, both in total and in each cohort, will attain age 65 and older ages. It is recognized that the question of whether the population will become relatively much older in the future depends to a large extent on fertility (and not only on mortality experience). However, over the very long-distant future, it seems unlikely that fertility will be so high (and remain so high) that aging of the population will not occur.

The cost of the program is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20-64 (potential contributors). At present, this ratio is 17.7 percent. In a stationary population resulting from present death rates the ratio would be 25.2 percent, but such a situation is not likely to occur within the next century. Ultimately this ratio may become even greater because of decreases in mortality below present rates.

Another reason for the increasing cost is that the proportion of the aged population eligible for and receiving benefits will increase. Some of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit under the system will increase from the present level of about 78 percent to between 93 and 96 percent by the end of the century.

Since the future cost of the old-age, survivors, and disability insurance program will be affected by many factors that are difficult to determine, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable. The long-range cost estimates for the program as it was changed by the 1961 amendments (shown for 1970 and thereafter) are presented here on a range basis to indicate the plausible variation in future costs depending on the actual trends that develop for the various cost factors. Both the low- and high-cost estimates are based on assumptions that represent close to full employment, with the average annual earnings remaining at about the level that prevailed in 1961. Each estimate provides data on payroll and contributions and on beneficiaries and benefit payments for every future year. The data are presented here for selected future years. All figures are assumed to remain constant after 2050.

It is considered likely, although by no means certain, that actual costs as a percentage of payroll will lie between the low-cost and high-cost figures. Also, a single estimate of costs is needed as a guide in considering proposed legislation and developing tax schedules intended to make the system self-supporting. For these reasons, an intermediate-cost estimate is prepared, in which numbers of beneficiaries, amount of benefit payments, and payrolls are taken halfway between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low-cost and high-cost percentage-of-payroll figures.

Table A shows benefit-payment costs for selected years and the level-premium cost, all expressed as percentages of payroll, under each of the three estimates. The level-premium cost is that constant combined employer-employee tax rate that, together with a tax on the self-employed at 75 percent of such combined rate, would exactly pay for all future benefits and administrative expenses, after making allowance for the effect of the existing trust fund and for future interest earnings. All percentage-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the disbursements in that year. Tables B and C show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

TABLE A.—*Estimated costs of old-age, survivors, and disability insurance system as percent of payroll, high employment and 1961 level earnings assumptions, 1970-2050*

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate <sup>2</sup>
Old-age and survivors insurance benefits			
1970 .....	6.87	7.36	7.11
1980 .....	7.70	8.79	8.23
1990 .....	8.09	10.13	9.05
2000 .....	7.41	10.34	8.74
2025 .....	8.41	13.43	10.49
2050 .....	10.50	15.18	12.31
Level-premium cost <sup>3</sup> .....	7.71	9.89	8.69
Disability insurance benefits			
1970 .....	0.62	0.72	0.67
1980 .....	.59	.71	.65
1990 .....	.54	.70	.61
2000 .....	.55	.73	.63
2025 .....	.62	.80	.70
2050 .....	.66	.83	.74
Level-premium cost <sup>3</sup> .....	.57	.72	.64

<sup>1</sup> Taking into account the lower contribution rate for the self-employed, as compared with the combined employer-employee rate.

<sup>2</sup> Based on the average of the dollar costs under the low-cost and high-cost estimates.

<sup>3</sup> Level-premium contribution rate, at 3.25 percent interest rate, for benefits after 1961, taking into account interest on the trust fund on December 31, 1961, future administrative expenses, the railroad retirement financial interchange provisions, reimbursement for military wage credits cost, and the lower contribution rates payable by the self-employed.

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TABLE B.—Estimated progress of old-age and survivors insurance trust fund, high employment and 1961 level earnings assumption, equivalent 3.25 percent interest basis<sup>1</sup>

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial inter-change <sup>2</sup>	Interest on fund	Fund at end of year <sup>3</sup>
Actual data						
1951.....	\$3,367	\$1,885	\$81	-----	\$417	\$15,540
1952.....	3,819	2,194	88	-----	365	17,442
1953.....	3,945	3,006	88	-----	414	18,707
1954.....	5,163	3,670	92	-----	468	20,576
1955.....	5,713	4,968	119	-----	461	21,663
1956.....	6,172	5,715	132	-----	531	22,519
1957.....	6,825	7,347	162	-----	557	22,393
1958.....	7,566	8,327	194	-\$124	552	21,864
1959.....	8,052	9,842	184	-282	532	20,141
1960.....	10,866	10,677	203	-318	516	20,324
1961.....	11,285	11,862	239	-332	549	19,725
Low-cost estimate						
1970.....	\$22,432	\$17,016	\$271	-\$281	\$1,531	\$50,515
1980.....	26,607	22,974	336	-95	3,686	117,622
1990.....	31,339	28,613	398	60	5,951	193,109
2000.....	37,170	31,092	441	110	9,581	310,372
2025.....	49,870	47,398	630	110	29,507	943,145
High-cost estimate						
1970.....	\$21,829	\$17,652	\$330	-\$330	\$1,161	\$39,052
1980.....	24,921	24,454	419	-165	2,336	74,468
1990.....	27,890	31,752	501	-20	2,298	73,998
2000.....	31,116	36,209	556	30	1,176	38,157
2025.....	35,255	53,416	734	30	( <sup>4</sup> )	( <sup>5</sup> )
Intermediate-cost estimate						
1970.....	\$22,131	\$17,333	\$305	-\$310	\$1,346	\$44,784
1980.....	25,764	23,713	378	-130	3,012	96,051
1990.....	29,615	30,182	450	20	4,125	133,555
2000.....	34,143	33,649	498	70	5,379	174,275
2025.....	42,563	60,408	682	70	10,249	326,401

<sup>1</sup> An interest rate of 3.25 percent is used in determining the level-premium costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate, when averaged over a long period of time.

<sup>2</sup> A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

<sup>3</sup> Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to \$377 for 1953, \$284 for 1954, and \$163 for 1955, \$60 for 1956, and nothing for 1957 and thereafter.

<sup>4</sup> These figures are artificially high because of the method of reimbursements between this trust fund and the disability insurance trust fund (and, likewise, the figure for 1959 is too low).

<sup>5</sup> Fund exhausted in 2008.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service.

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TABLE C.—Estimated progress of disability insurance trust fund, high employment and 1961 level earnings assumptions, equivalent 3.25 percent interest basis<sup>1</sup>

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
Actual data					
1967.....	\$702	\$57	\$ 3	\$7	\$649
1968.....	966	249	12	25	1,379
1969.....	912	457	50	41	1,825
1960.....	1,015	568	36	53	2,289
1961.....	1,033	887	64	66	2,437
Low-cost estimate					
1970.....	\$1,279	\$1,505	\$81	\$40	\$1,345
1980.....	1,519	1,692	81	( <sup>3</sup> )	( <sup>3</sup> )
1990.....	1,788	1,857	83	( <sup>3</sup> )	( <sup>3</sup> )
2000.....	2,121	2,235	92	( <sup>3</sup> )	( <sup>3</sup> )
2025.....	2,850	3,410	134	( <sup>3</sup> )	( <sup>3</sup> )
High-cost estimate					
1970.....	\$1,245	\$1,709	\$92	( <sup>4</sup> )	( <sup>4</sup> )
1980.....	1,424	1,940	92	( <sup>4</sup> )	( <sup>4</sup> )
1990.....	1,592	2,120	93	( <sup>4</sup> )	( <sup>4</sup> )
2000.....	1,776	2,497	98	( <sup>4</sup> )	( <sup>4</sup> )
2025.....	2,015	3,118	119	( <sup>4</sup> )	( <sup>4</sup> )
Intermediate-cost estimate					
1970.....	\$1,262	\$1,607	\$86	\$9	\$311
1980.....	1,472	1,816	87	( <sup>5</sup> )	( <sup>5</sup> )
1990.....	1,600	1,989	88	( <sup>5</sup> )	( <sup>5</sup> )
2000.....	1,949	2,366	95	( <sup>5</sup> )	( <sup>5</sup> )
2025.....	2,433	3,264	127	( <sup>5</sup> )	( <sup>5</sup> )

<sup>1</sup> An interest rate of 3.25 percent is used in determining the level-premium costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate, when averaged over a long period of time.

<sup>2</sup> These figures are artificially low because of the method of reimbursements between the trust fund and the old-age and survivors insurance trust fund (and, likewise, the figure for 1959 is too high).

<sup>3</sup> Fund exhausted in 1975.

<sup>4</sup> Fund exhausted in 1969.

<sup>5</sup> Fund exhausted in 1971.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service and transfers to or from the railroad retirement account under the financial interchange provisions of the Railroad Retirement Act.

For old-age and survivors insurance, annual benefit payments as a percentage of payroll are less than or close to the scheduled tax rates in the early future years, but they eventually rise well above the ultimate rate of 8¼ percent. For disability insurance the benefit payments are higher than the present level tax rate of one-half percent for every future year. To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates has been computed, taking into account future interest. The level-premium equivalent of contributions minus the level-premium equivalent of benefit and administrative costs, after making allowance for the interest-earning effect of the existing trust fund, gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure would indicate that an increase in the tax rate is

needed to make the system self-supporting. However, considering the variability of long-range cost estimates and certain elements of conservatism believed to be present in the estimates, small negative figures are not considered significant. The long-range balance of the system is shown by the following level-premium equivalent costs and contributions, in percentages of payroll, which are computed as of the beginning of calendar year 1962, at 3.25 percent interest (the estimated long-range average rate corresponding to the revised method of determining the interest rate on special obligations issued to the trust funds under the provisions of the 1960 amendments):

[In percent]

Item	Low cost	High cost	Intermediate cost
Old-age and survivors insurance			
Contributions <sup>1</sup> .....	8.54	8.50	8.52
Benefit cost <sup>2</sup> .....	7.71	9.89	8.69
Net difference.....	.83	-1.39	-.17
Disability insurance			
Contributions <sup>1</sup> .....	0.50	0.50	0.50
Benefit cost <sup>2</sup> .....	.57	.72	.64
Net difference.....	-.07	-.22	-.14

<sup>1</sup> Based on adjusted payroll that reflects the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

<sup>2</sup> Including adjustments (a) to reflect lower contribution rate for the self-employed as compared with the combined employer-employee rate, (b) for interest on existing trust fund, (c) for administrative expenses, (d) for the railroad retirement financial interchange provisions, and (e) for reimbursement of military wage credits cost.

The lack of actuarial balance of the old-age and survivors program (0.17 percent on the intermediate-cost basis) is within the acceptable limit of variation of 0.25 percent of taxable payroll. The disability insurance program has a lack of actuarial balance of 0.14 percent of payroll which is well above the acceptable limit of variation of 0.05 percent.

If the cost estimates had been based on a higher interest rate than 3.25 percent (which is somewhat above the current average being earned by the total investments of the trust funds, although considerably below the prevailing market rate of interest on long-term Government obligations, which was about 3½ percent in 1962), the lack of actuarial balance would have been considerably less than 0.31 percent of payroll. In fact, if an interest rate of 3½ percent had been assumed, the combined actuarial deficit of both programs would have been virtually eliminated.

If the experience exactly follows the assumptions, future computations would show a gradual increase in the actuarial lack of balance under the intermediate-cost estimate for both the old-age and survivors insurance system and the disability insurance system. The reason for this is that interest accumulations increase any surplus in the system, but declines in interest income increase any deficit. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of the absence of the annual interest that

would have been earned if the proper contributions had been paid. It is estimated that because of this effect the present deficiency of 0.31 percent would increase to 0.36 percent by the year 1970. With continuing study of the emerging experience under the program, there will be ample time to make any changes in the tax rate or other changes that may be necessary to keep the system in actuarial balance.

It is important to note that these estimates are made on the assumption that earnings will remain at about the level prevailing in 1961. If earnings levels rise, as they have in the past, the benefits and the taxable earnings base under the program will undoubtedly be modified. If such changes are made concurrently and proportionately with changes in general earnings levels, and if the experience follows all the other assumptions, the future year-by-year costs of the system as a percentage of taxable payroll would be the same as those shown. However, the existing trust fund accumulated in the past, and its interest earnings, will represent a smaller proportion of the future taxable payrolls than if earnings were not to increase in future years. As a result, since interest earnings of the trust fund will play a relatively smaller role in the financing of the system, the "net" level-premium cost—taking into account benefit payments, administrative expenses, and interest on the existing trust fund—would be somewhat higher. If benefits were modified to reflect changes in earnings levels, not in full but rather only in part or with a timelag, the "net" level-premium cost would not rise as much, or might not increase at all. Again, the effect of such events can be observed in ample time to make any needed changes in the contribution schedule or any other changes to improve the actuarial balance of the system.

This analysis includes the benefits and contributions in respect to all persons anticipated to be covered in the future under present statutory provisions. The actuarial deficiency would be larger if account were taken only of (a) the benefits to be paid to workers who have been covered by the system in the past and to their dependents and survivors, (b) the future taxes to be paid by such workers, and (c) the existing trust funds. In a private insurance company it is necessary to set up reserves equal to all currently accrued liabilities, since the company cannot compel individuals to become new policyholders and must be in a position at any time to pay all benefits that will become payable with respect to its present and past policyholders, using only its present assets and the premiums to be paid by present policyholders. In analyzing the actuarial condition of a compulsory social insurance system that will continue indefinitely, the income and outgo with respect to new entrants should properly be included, thus obviating the need to set up reserves for all currently accrued liabilities.

A discussion of the assumptions under which these estimates have been made is presented in appendix I.

#### MEDIUM-RANGE COST ESTIMATES

The preceding sections have presented both short-range cost estimates (the next 5 years) and long-range cost estimates (many decades into the future) for the old-age, survivors, and disability insurance system. The 1957-58 Advisory Council on Social Security Financing, among its recommendations, suggested that a third type of actuarial

cost estimate is desirable; namely, medium-range cost estimates for the next 15 to 20 years. (See 19th Trustees Report.) These estimates, it was suggested, should take into account possible variations in economic factors, such as earnings and employment levels, as well as in demographic developments. The long-range cost estimates encompass the latter factors, but do not take into account changes in such economic factors as general business conditions and earnings levels.

In the 21st Trustees Report, for the first time, such medium-range estimates were presented for the system as it was following the 1960 amendments. The estimates covered the period through 1975.<sup>1</sup> The 22d Trustees Report contained similar figures for the program as it was following the 1961 amendments.

A detailed statement of the economic assumptions underlying the medium-range cost estimates to 1975 has been published.<sup>2</sup> Briefly, the assumptions through 1965 were those developed in connection with the short-range projections. After 1965, it was assumed that there would be an annual increase of 3 percent in the total earnings of each covered worker. Under a fixed maximum taxable earnings base, the average earnings on which contributions are collected and on which benefits are based will not rise at this assumed 3-percent annual rate; rather, the increase in average covered earnings is considerably smaller because of the dampening effect of the fixed base. This effect is well illustrated by the fact that in 1959, 80.7 percent of the total earnings of covered individuals was taxable, but that this proportion will probably drop to slightly less than 60 percent by 1975 if the earnings base remains unchanged and the general earnings level rises.

The medium-range estimates, like the short-range and long-range estimates, assume no future changes in the law. However, over the period covered by the estimates, many changes will undoubtedly be made. In particular, if earnings levels rise, changes will almost certainly be made in benefit levels. The extent and timing of whatever changes are made in the law are, of course, unpredictable.

Both the medium-range and long-range cost estimates consider trends in the labor force participation rates (including increases in these rates among women and changes in these rates among persons aged 65 and over). The medium-range estimates take into consideration the business cycle conditions of the postwar type, in that their effect has been averaged out in the trend projected for the period after 1965. The estimates, however, do not show the effect of differing fluctuations in labor force participation rates that occur during successive business cycles.

New medium-range cost estimates comparable with the revised short-range and long-range cost estimates have not been prepared for inclusion in this report. Nonetheless, the same general observations can be reached as in the previous reports. If earnings levels rise steadily and, at the same time, the statutory provisions of the system are not changed, then as compared with estimates based on level-earnings assumptions, both contribution income and benefit disburse-

<sup>1</sup> For more details on these medium-range cost estimates, see "Actuarial Study No. 53," Social Security Administration, August 1961.

<sup>2</sup> See "Economic Assumptions Underlying the Medium-Range Projections of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1966-75," by Moses Lukaczer, Division of Program Research, Social Security Administration, August 1961.

ments will be higher, but the former will have a much larger increase than the latter. Accordingly, the balance in the trust fund will grow significantly more under the rising-earnings assumption, as used in the medium-range cost estimates, than under the level-earnings assumption, as used in the long-range cost estimates. It is intended that future reports will carry specific medium-range cost estimates.

#### CONCLUSION

Total assets of the old-age and survivors insurance trust fund decreased \$1.3 billion during fiscal year 1962. A decrease of about this magnitude had been anticipated in the previous report. Over the 5 years 1963-67 the trust fund is expected to increase, although during the early part of this period the rise will not be very rapid.

Total assets of the disability insurance trust fund increased by only \$2 million during fiscal year 1962, or by 0.1 percent. The estimated increase shown in the previous report was \$40 million, or about 1.6 percent. Short-range future estimates for this trust fund indicate that its assets will decline slowly, but steadily (although at an increasing rate), over the next 5 years—as contrasted with the previous report which indicated that they would remain about level.

Relatively large margins and possible variations are inherent in long-range actuarial cost estimates. Such estimates are, therefore, the subject of continuing study and appraisal. Considering the old-age and survivors insurance and the disability insurance portions of the program together, the new cost estimates made recently show that the actuarial balance is substantially the same as it was before the new estimates were prepared so that the system as a whole remains in close actuarial balance. The balances of each of the two portions of the program, however, are differently affected. The balance of the old-age and survivors insurance program is shown to have improved somewhat—by 0.07 percent of taxable payroll on a level-cost basis—but the balance of the disability insurance program is shown to have deteriorated somewhat—by 0.08 percent of taxable payroll. As to the latter, the previous lack of actuarial balance was 0.06 percent of taxable payroll (or 12 percent relatively); the current estimates show a lack of balance of 0.14 percent of taxable payroll (or 28 percent relatively).

An adjustment of the allocation of the total contribution rate between the two portions of the program would thus not affect the overall actuarial balance, but it would make for a more reasonable subdivision between them.

Accordingly, the Board of Trustees recommends that in 1966, when the combined employer-employee contribution rate increases by 1 percent (with a corresponding increase in the rate for the self-employed), the allocation to the disability insurance trust fund shall be changed from the present basis. It is recommended that a small portion of the increase of 1 percent be allocated to the disability insurance trust fund and the remainder to the old-age and survivors insurance trust fund. It is not necessary at this time to recommend the exact amount of the allocation to the disability insurance trust fund, which will undoubtedly be relatively small, since this can better be done after study of the developing experience in the next 2 years. On the basis of the present long-range cost estimates, it could then be said that not

only the program as a whole, but also each of the two subdivisions, would be in close actuarial balance. It may be noted that under conditions of actuarial balance, the system will have sufficient income from contributions (based on the tax schedule now in the law) and from interest earned on investments to meet benefit payments and administrative expenses indefinitely into the long-range future.

Under section 217(g) of the Social Security Act, as amended, the trust funds are to be reimbursed from general revenues for the additional costs that were incurred after August 1950 with respect to benefits based on credits for military service performed at some time during the period from September 16, 1940, through December 31, 1956 (for which no contributions were paid). No reimbursements, however, have been made to date for these costs. The Board of Trustees, therefore, strongly recommends enactment of the first appropriation request of \$63.4 million, contained in the 1964 Budget of the United States, as submitted to Congress in January 1963.

